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LAKE CHARLES HARBOR AND TERMINAL DISTRICT
LAKE CHARLES, LOUISIANA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEARS ENDED DECEMBER 31, 2004 AND 2003

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6/22/05

Prepared by the
Staff of Administration and Finance
Lake Charles Harbor and Terminal District

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

FINANCIAL REPORT
December 31, 2004

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INTRODUCTORY SECTION

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March 16, 2005

Board of Commissioners
Lake Charles Harbor and Terminal District
P. O. Box 3753
Lake Charles, LA 70602

Dear Commissioners:



**Lake Charles
Harbor
& Terminal
District**

Post Office Box 3753
Lake Charles, LA 70602
Phone 337-439-3661
Facsimile 337-493-3523

The Comprehensive Annual Financial Report (CAFR) of the Lake Charles Harbor and Terminal District (District) for the year ended December 31, 2004 is hereby submitted for your review. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all note disclosures, rests with the District. The financial statements have been independently audited in accordance with applicable law and governmental auditing standards. This transmittal letter should be read in conjunction with Management's Discussion and Analysis on pages 19 – 24. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities and operations have been included.

Certain demographic information and miscellaneous statistics included in the CAFR were not obtained from the financial records of the District but are presented for the CAFR user's information and understanding of the District and the environment in which the District operates.

The enclosed CAFR has been prepared in accordance with guidelines recommended by the Governmental Accounting Standards Board and the Government Finance Officers Association. The CAFR is presented in three sections:

1. **Introductory Section** - This section consists of the letter of transmittal, the District's Organizational Chart and the District's Board of Commissioners.
2. **Financial Section** - This section includes the Independent Auditor's Report on the District financial statements for the year ended December 31, 2004, management's discussion and analysis, the financial statements for the same period, and the accompanying notes to the financial statements.

- 3. Statistical Section** - This section includes additional unaudited financial and demographic information.

Overview of the Lake Charles Harbor and Terminal District

The District is an independent political subdivision of the State of Louisiana created by action of the Louisiana Legislature in 1924 and authorized by Louisiana Revised Statutes 34:201-217. The District operates a deep water port on the Calcasieu Ship Channel and encompasses 203 square miles in Southwest Louisiana. Presently the District owns and manages five public marine terminal facilities commonly designated as the Port of Lake Charles.



The District provides the infrastructure for a diversity of marine terminal facilities designed to accommodate a wide range of cargoes. Some of these facilities are owned and operated by the District; some are owned by the District and leased to private terminal operators.

Cargoes shipped through District facilities are generally classified into bulk cargoes, break-bulk cargoes and containerized cargoes. Bulk cargoes are generally dry bulk commodities such as petroleum coke, barite, rutile and grains. These cargoes are generally loaded through one of the District's bulk terminals, with the most active bulk terminal being Bulk Terminal 1. Break-bulk cargoes are unitized cargoes such as bagged flour, bagged rice, lumber, logs and linerboard. Break-bulk cargoes typically move through the transit sheds, berths and warehouses in the area of the District called the City Docks. Containerized cargo consists of break-bulk cargo shipments which are loaded into self-contained shipping units that are handled through District-owned facilities, which are leased to a private operator.

Local Economy

Southwest Louisiana's economic base can be classified into three primary categories: Petrochemical, Gaming, and Aircraft Maintenance and Repair.

- According to research by Dr. Daryl Burckel and Dr. Michael Kurth of McNeese State University, Calcasieu Parish is the home of 23 different chemical plants and two refineries, employing over 6,000 workers and paying an average wage of \$76,000 year. Additional contract workers number approximately 2,000. Additional major construction projects are scheduled for this category during 2005.
- Lake Charles is currently home to four riverboat casinos. Pinnacle Entertainment will complete construction on the fifth riverboat casino in June 2005 on land leased from the District. Pinnacle's



hotel and casino, L'auberge du Lac, will be the second largest single deck riverboat in the United States and the only single deck riverboat in Louisiana. The hotel will be 26 stories with over 700 rooms, a 26,000 sq ft event center, a 14,000 sq ft ballroom and an 18-hole Tom Fazio-designed Golf Course.

- Northrup Grummen and EADS are located at the Chennault Industrial Airpark where aircraft modification and maintenance is performed.

Dry Bulk Cargo Terminals

The District owns three dry bulk terminals specializing in commodities such as petroleum coke, barite, rutile, aggregate, grains, and caustic soda. These terminals are equipped with loading and unloading facilities that include shiploaders, ship unloaders, rail car rollover, truck and rail hoppers, pits and chutes, conveyor systems, scales, silos and open-air storage pads.

General Cargo Docks

The City Docks area has 10 transit sheds and one open berth and can accommodate 12 ships in port simultaneously. The City Docks have approximately 1 million square feet of transit shed space that can accommodate 100,000 tons of bagged cargo and unitized cargo.

Preposition Contract

The United States Agency for International Development (USAID) awarded the Pre-position Contract for 2005 to the District. The District has handled this contract since its inception in 1998. Pre-positioned cargo is generally carried by maritime transportation from the District to international destinations in Africa, South and Central America, Indonesia, India and other areas. These cargoes include commodities such as vegetable oil, rice, peas, beans, lentils, and cornmeal.

Pre-positioned commodities are part of the Public Law 480 Title II food aid program. The program provides for the donation of U.S. agricultural commodities by the U.S. Government for humanitarian food needs. The contract's purpose is to put cargo in port that is made available to meet extraordinary relief requirements in foreign countries. The District estimates to receive approximately 30,000 tons of pre-position cargo during 2005.

Cargo Diversity

During 2004, the District was successful in attracting Gearbulk from Port Arthur, Texas. Gearbulk imports forest products from South America destined for markets throughout the United States. One of Gearbulk's primary attractions to the District related to the available transit shed and warehouse space. Import tonnage through the District is estimated to be approximately 270,000 tons during 2005. The District will likely construct an additional transit shed in 2006 to meet Gearbulk's growing demand for additional space.

Real Estate

The District owns approximately 4,000 acres in Southwest Louisiana. These properties include leased acreage to both traditional and non-traditional port related tenants, spoil disposal sites, and acreage available for future development. During 2004, lease revenues accounted for approximately \$2.2 million, or 11% of total District operating revenues. Rental revenue is expected to increase by approximately \$1.6 million during 2005 due primarily to the completion of the L'auberge du Lac Hotel and Casino located on District property.

Subsequent to December 31, 2004, the District awarded a contract to Lockwood Green a nationally recognized economic development consultant. The services of Lockwood Green were requested to develop a targeted marketing and development plan for several undeveloped properties of the District.

Security Initiatives

The District was awarded a grant by the Department of Homeland Security in the amount of \$4.2 million during 2004 to assist in undertaking necessary port security initiatives. The grant provided resources for security planning and projects to improve dockside and perimeter security. Specifically, equipment to ensure adequate access controls, and an integrated vessel scheduling, waterside surveillance and threat detection system were acquired.

Capital Improvements

Over the next five years, the District's capital budget calls for approximately \$46.4 million in new construction and major improvements. The funding sources for these projects will be provided primarily by grant funding and District revenues.



Internal Controls

The management of the District is responsible for establishing and maintaining internal controls over its operations. These internal controls are designed to provide management with reasonable, though not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that the costs of a control should not exceed the benefits likely to be derived therefrom and that the evaluation of the costs and benefits requires certain estimates and judgments by management.

Budgetary Control


The District prepares an annual budget that is based upon the expected cargo movements and rental activity of the District. The Board of Commissioners adopts the annual operating budget and capital budget, which establishes budgetary appropriations for the operation and capital improvements of the District.

Acknowledgements

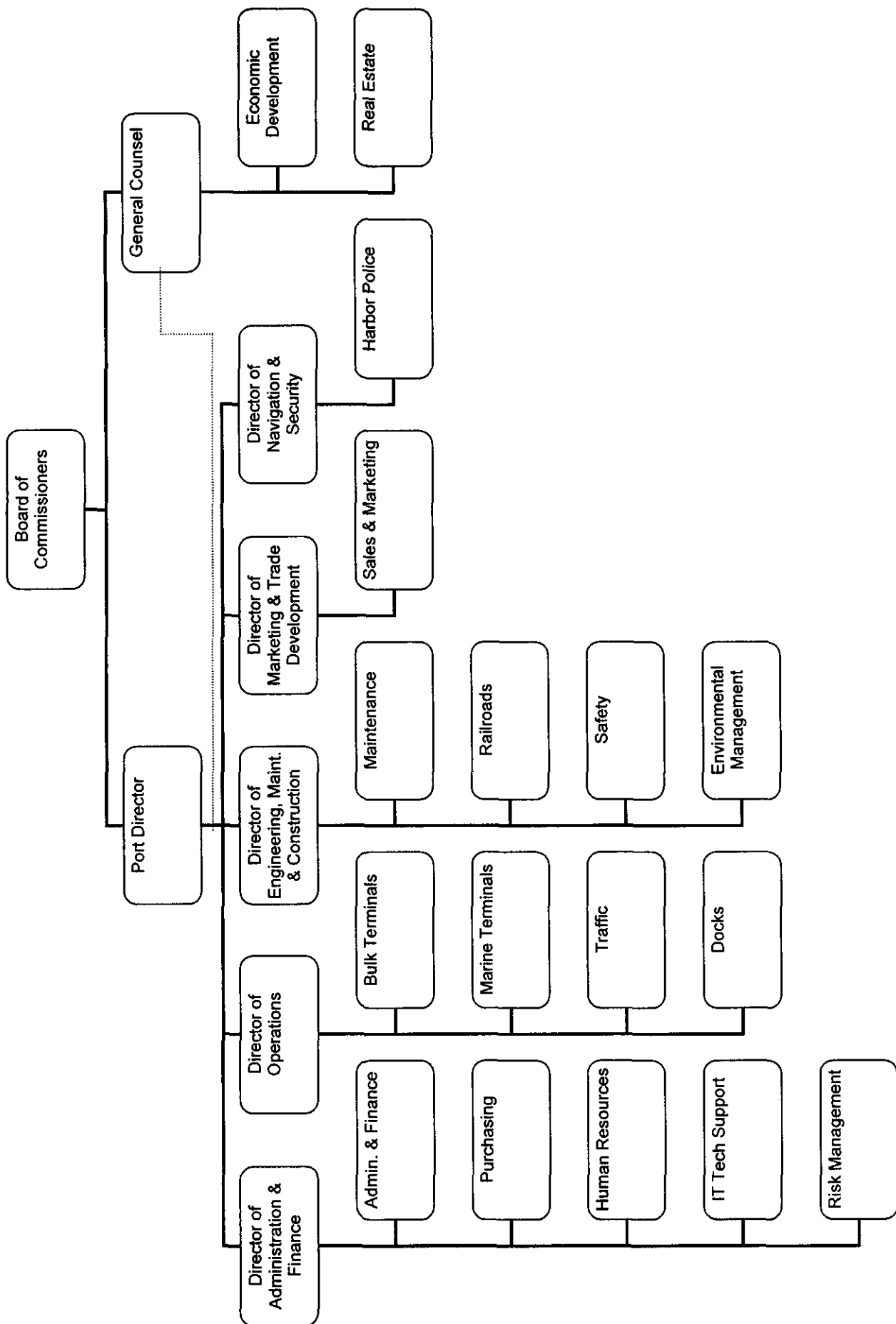
The preparation of this comprehensive annual financial report could not have been accomplished without the efficient and dedicated efforts from the Administration and Finance Department staff.

Respectfully submitted,


R. Adam McBride
Port Director


Richard L. Self
Director of Administration
& Finance

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

P.O. BOX 3753
LAKE CHARLES, LOUISIANA 70602
337-439-3661

BOARD OF COMMISSIONERS

Fred R. Godwin	President
Kay C. Barnett	Vice-President
Marshall J. Simien, Jr.	Secretary/Treasurer
Mark T. Abraham	Commissioner
Harry C. Hank	Commissioner
Leonard K. Knapp, Jr.	Commissioner
C. Wade Shaddock, Jr.	Commissioner

PORT DIRECTOR

R. Adam McBride

FINANCIAL SECTION

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(In Affiliation with - Gus Schram & Co., LTD)

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Greg P. Naquin, CPA, CFP™
Billy D. Fisher, CPA
Joe G. Peshoff, II, CPA, CVA



Charles P. Quirk, CPA, Inactive
Orray J. Woods, Jr., CPA, Inactive
Robert F. Cargile, CPA, Inactive
William A. Mancuso, CPA, Retired
Barbara Hutson Gonzales, CPA, Retired
Judson J. McCann, Jr., CPA, Retired

CFE - Certified Fraud Examiner
MT - Masters of Taxation
CVA - Certified Valuation Analyst
CFP - Certified Financial Planner

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Commissioners
Lake Charles Harbor and Terminal District
Lake Charles, Louisiana

We have audited the accompanying financial statements of the Lake Charles Harbor and Terminal District (District), Lake Charles, Louisiana, as of and for the year ended December 31, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Lake Charles Harbor and Terminal District management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lake Charles Harbor and Terminal District, Lake Charles, Louisiana, as of December 31, 2004 and 2003, and the changes in financial position and cash flows and the budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2005 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 19 through 24, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lake Charles Harbor and Terminal District, Lake Charles, Louisiana, basic financial statements. The introductory section, accompanying supplementary information and statistical information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Mc Elroy, Quail & Bunch

Lake Charles, Louisiana
March 16, 2005

Management's Discussion and Analysis

The following is the Lake Charles Harbor and Terminal District's Management Discussion and Analysis (MD&A) of the financial activities and performance for the twelve months ended December 31, 2004 and 2003. It provides an introduction to the District's 2004 and 2003 financial statements. Information contained in this MD&A has been prepared by District management and should be considered in conjunction with the financial statements.

Financial Highlights

- The assets of the Lake Charles Harbor and Terminal District exceeded its liabilities as of December 31, 2004 by \$205.2 million (*net assets*). Net assets totaled \$197.1 million as of December 31, 2003.
- As a result of the excess revenues over expenses, the District's net assets increased \$8.1 million compared to a \$6.5 million increase during 2003.
- During 2004, operating revenues were \$23.1 million, an increase of \$5.3 million (30%) over 2003. Operating expenses were \$22.4 million, an increase of \$0.2 million (1%) over 2003.
- During 2004, the available resources exceeded budgeted amounts by approximately \$2.7 million. Actual operating expenses and non-operating revenues and expenses resulted in a favorable budget to actual variance of approximately \$2.8 million.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Lake Charles Harbor and Terminal District's basic financial statements. The District is a special-purpose government engaged only in business type activities.

The basic financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a comparative statement of fund net assets, a comparative statement of revenues, expenses, and changes in fund net assets, a comparative statement of revenues, expenses, and changes in fund net assets-budget and actual (budgetary basis), and a comparative statement of cash flows.

- The comparative statement of fund net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The comparative statement of revenues, expenses, and changes in fund net assets presents information showing how the district's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.
- The comparative statement of revenues, expenses, and changes in fund net assets-budget and actual (budgetary basis) presents a comparison of actual results to budgeted amounts for the current year. In addition, in order to allow users to assess the effect of issues encountered during the year and provide accountability to users of the original budget, the statement presents both original and final budgeted amounts.
- The comparative statement of cash flows presents changes in cash and cash equivalents from operational, financing, and investing activities. This statement presents cash receipt and disbursement information without consideration of the earnings event, when obligations arise, or depreciation of capital assets.

The basic financial statements can be found on pages 26 - 35 of this report.

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to financial statements can be found on pages 36 - 59 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. This supplementary information can be found on pages 62 - 80 of this report.

Financial Analysis of the District

The following table presents the condensed statement of fund net assets as of December 31, 2004 and 2003:

Lake Charles Harbor & Terminal District
Comparative Condensed Statement of Fund Net Assets

	2004 <u>(in thousands)</u>	2003 <u>(in thousands)</u>
Current and other assets	\$ 48,457	\$ 48,719
Capital assets	<u>182,427</u>	<u>175,808</u>
Total assets	<u>230,884</u>	<u>224,527</u>
Current liabilities	6,005	7,261
Other liabilities	<u>19,665</u>	<u>20,166</u>
Total liabilities	<u>25,670</u>	<u>27,427</u>
Net assets:		
Invested in capital assets, net of related debt	163,677	155,808
Restricted	18,750	20,000
Unrestricted	<u>22,787</u>	<u>21,292</u>
Total net assets	<u>\$ 205,214</u>	<u>\$ 197,100</u>

The assets of the Lake Charles Harbor and Terminal District exceeded its liabilities as of December 31, 2004 by \$205.2 million compared to \$197.1 million as of December 31, 2003 (*net assets*).

The largest portion of the District's net assets reflects its investment in capital assets in the amount of \$163.7 million as of December 31, 2004 compared to \$155.8 million as of December 31, 2003. These capital assets include land, buildings, improvements, equipment and construction in progress, less any related outstanding debt used to acquire those assets. These assets are not available for future spending. Although restricted net assets total \$18.8 million and \$20.0 million for 2004 and 2003, respectively, it should be noted that the resources needed to repay the debt must be provided from operations, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's restricted net assets of \$18.8 million as of December 31, 2004 and \$20.0 million as of December 31, 2003, represents an amount restricted for debt service in accordance with existing bond covenants. The Board of Commissioners has designated \$1.2 million in unrestricted net assets as of December 31, 2004 to be used for commitments on construction contracts compared to \$14.0 million in unrestricted net assets as of December 31, 2003 to be used for commitments on construction contracts, debt service, and a scholarship endowment. The remaining \$21.5 million and \$7.2 million as of December 31, 2004 and 2003, respectively, of unrestricted net assets may be used to meet the District's ongoing obligations to creditors.

The following table shows condensed revenue and expense data for the years ended December 31, 2004 and 2003:

Lake Charles Harbor & Terminal District
Comparative Condensed Statement of Revenues, Expenses,
and Changes in Fund Net Assets

	2004 <u>(in thousands)</u>	2003 <u>(in thousands)</u>
Operating revenues	\$ 23,113	\$ 17,824
Operating expenses	<u>22,389</u>	<u>22,148</u>
Operating (loss)	724	(4,324)
Net nonoperating revenues (expenses)	<u>2,141</u>	<u>(235)</u>
Net (loss) before contributions	2,298	(4,559)
Capital contributions	<u>5,249</u>	<u>11,037</u>
Change in net assets	<u>8,114</u>	<u>6,478</u>
Net assets, beginning of year (as previously reported)	197,100	190,543
Prior period adjustments	<u>-</u>	<u>79</u>
Net assets, beginning of year (restated)	<u>197,100</u>	<u>190,622</u>
Net assets, end of year	<u>\$ 205,214</u>	<u>\$ 197,100</u>

- The District generates revenue utilizing marine terminal facilities designed to accommodate a wide range of bulk, break-bulk and containerized cargoes.
- Operating revenues increased \$5.3 million or 30% as compared to 2003 due primarily to revenue associated with the one-time settlement of a dispute with customers at the District's Bulk Terminal No. 1. An additional contributing factor relates to increased rental revenue associated with three new tenants during 2004. The favorable revenue variance was partially offset by adjustments to cargo handling rates and lower tonnage at City Docks.
- Total operating expenses increased \$0.2 million or 1% as compared to 2003 due primarily to expenses associated with the one-time settlement of a dispute with customers at the District's Bulk Terminal No. 1 and dredging expenses at City Docks. This increase was partially offset by decreases in contractual services as a result of a decline in legal, auditing and professional services as compared to 2003, which resulted from the difficulties at the District during 2003.
- Nonoperating revenues increased \$2.4 million during 2004 as compared to 2003 due to asset impairments recorded during 2003 and expenses associated with a cooperative endeavor to improve Nelson Road incurred during 2003.

- The District's net assets increased \$8.1 million and \$6.5 million during the twelve months ended December 31, 2004 and 2003, respectively. The increase during 2004 is due primarily to the one-time settlement of a dispute with customers at the District's Bulk Terminal No. 1 and capital contributions from federal, state and other sources. The increase during 2003 is due primarily to capital contributions from federal, state and other sources. There is no assurance that these capital contributions will continue in the future.
- The District received \$5.2 million in Federal, State and other capital contributions for the year ended December 31, 2004 compared to \$11.0 million for the year ended 2003. This decrease is a result of the Contraband Bayou Transit Shed Project nearing completion which was partially funded by the State of Louisiana. These contributions were used to fund capital projects at the District.

Budgetary Highlights

No revisions were made to the budget during the twelve months ended December 31, 2004.

Actual operating revenues exceeded budgeted amounts by approximately \$2.7 million. Actual operating expenses and nonoperating revenues and expenses resulted in a favorable budget to actual variance of approximately \$2.8 million.

Capital and Debt Administration

Capital assets. The District's capital assets were \$182.4 million and \$175.8 million (net of accumulated depreciation) as of December 31, 2004 and 2003, respectively. These balances include land, buildings, improvements, equipment, and construction in progress.

Major capital asset events during the year ended December 31, 2004 included the following:

- Construction continued on additional facilities for the District; construction in progress as of the December 31, 2004 was \$37.7 million compared to \$30.2 million as of December 31, 2003.
- Construction of the Environmental Pit located at the District's Bulk Terminal No. 1 was completed during 2004.

Construction on the Contraband Bayou Transit Shed was nearing completion and expected to begin operating during the second quarter of 2005. Additional information on the Lake Charles Harbor and Terminal District's capital assets can be found in note 7 on page 46.

**Lake Charles Harbor & Terminal District
Fixed Assets**

	2004 <u>(in thousands)</u>	2003 <u>(in thousands)</u>
Land	\$ 25,254	\$ 25,254
Buildings & facilities	194,803	190,597
Equipment	19,549	19,803
Construction in progress	37,702	30,179
Accumulated depreciation	<u>(94,881)</u>	<u>(90,025)</u>
	<u>\$ 182,427</u>	<u>\$ 175,808</u>

Long-term debt. The Lake Charles Harbor and Terminal District had \$18.8 million in bonds outstanding as of December 31, 2004 compared to \$20.0 million as of December 31, 2003. These bonds consist of the 1994 Variable Rate Port Improvement Bonds with interest due in quarterly installments through 2019. Additional information on the Lake Charles Harbor and Terminal District's long-term debt can be found in note 11 on pages 49 - 52.

Economic Factors and 2005 Budget

The following factors were considered in preparing the District's budget for 2005:

- Increased rental revenue associated with two land leases with significant escalations during 2005.
- Increased professional services associated with augmenting the existing Harbor Police force and the engagement of an economic development consultant during 2005.
- Significant increases in depreciation expense associated with the completion of the Contraband Bayou Transit Shed Project during 2005.
- Decreased dredging expenses during 2005 as a result of the completion of dredging of City Docks and Bulk Terminal No. 1 during 2004.

Requests for Information

This financial report is designed to provide a general overview of the Lake Charles Harbor and Terminal District's finances. Questions concerning this report or requests for additional information should be addressed to Richert Self, Director of Administration and Finance, Lake Charles Harbor and Terminal District, 150 Marine Street, Lake Charles, LA 70601.

BASIC FINANCIAL STATEMENTS

Exhibit 1

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF FUND NET ASSETS

ENTERPRISE FUND

December 31, 2004 and 2003

ASSETS	2004	2003
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,325,454	\$ 9,570,886
Investments	4,454,100	6,489,762
Restricted current assets:		
Cash and cash equivalents	1,925,583	6,966,317
Investments	-	608,818
Interest receivable	31,991	2,865
Receivables:		
Trade, net of allowance for doubtful accounts	2,786,726	1,985,212
Intergovernmental	2,579,936	7,285,704
Contributions, net of allowance for doubtful accounts	466,564	-
Property taxes, net of allowance for doubtful accounts	1,740,439	1,703,578
Interest	34,480	57,993
Other	-	16,186
Inventory	369,695	368,813
Prepaid expenses	274,413	272,572
Insurance deposits	698,433	422,980
Total current assets	<u>27,687,814</u>	<u>35,751,686</u>
NONCURRENT ASSETS		
Investments	3,748,508	-
Restricted investments	16,792,426	12,422,000
Investments designated for scholarship endowment	-	300,000
Total noncurrent assets	<u>20,540,934</u>	<u>12,722,000</u>
FIXED ASSETS		
Property, plant and equipment	277,308,117	265,833,280
Less accumulated depreciation	<u>94,881,083</u>	<u>90,025,125</u>
Net property, plant and equipment	<u>182,427,034</u>	<u>175,808,155</u>
OTHER ASSETS		
Unamortized expense	<u>227,951</u>	<u>245,486</u>
Total assets	<u>230,883,733</u>	<u>224,527,327</u>

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF FUND NET ASSETS
ENTERPRISE FUND

December 31, 2004 and 2003

LIABILITIES	2004	2003
CURRENT LIABILITIES (payable from current assets)		
Accounts payable	\$ 2,211,946	\$ 1,398,983
Contracts payable	1,572,884	4,090,575
Claims payable	486,967	-
Accrued expenses	179,801	320,896
Accrued interest payable	28,391	21,616
Deferred revenues	274,722	178,817
Total current liabilities (payable from current assets)	4,754,711	6,010,887
CURRENT LIABILITIES (payable from restricted assets)		
Current maturities of long-term debt	1,250,000	1,250,000
NONCURRENT LIABILITIES		
Long-term rent payable	239,818	291,870
Claims payable, less current portion	942,816	-
Compensated absences, less current portion	380,344	387,163
Deferred revenues, less current portion	602,040	737,203
Total noncurrent liabilities	2,165,018	1,416,236
NONCURRENT LIABILITIES (payable from restricted assets)		
Long-term debt, less current maturities	17,500,000	18,750,000
Total liabilities	25,669,729	27,427,123
NET ASSETS		
Invested in capital assets, net of related debt	163,677,034	155,808,155
Restricted for trust funds pursuant to the issuance of the 1994 Port Improvement Revenue bonds	18,750,000	20,000,000
Unrestricted	22,786,970	21,292,049
Total net assets	\$ 205,214,004	\$ 197,100,204

The notes to the financial statements are an integral part of this statement.

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LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUND

Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Vessel and cargo services	\$ 20,474,040	\$ 15,590,573
Rental of equipment and facilities	2,202,282	1,626,396
Other	<u>436,657</u>	<u>607,008</u>
Total operating revenues	<u>23,112,979</u>	<u>17,823,977</u>
Operating expenses:		
Personnel services	6,111,759	5,788,198
Contractual services	3,537,463	4,573,638
Supplies, maintenance and operation of facilities	6,791,682	5,762,629
Heat, light and power	553,809	588,083
Depreciation and amortization	<u>5,393,955</u>	<u>5,435,259</u>
Total operating expenses	<u>22,388,668</u>	<u>22,147,807</u>
Operating income (loss)	<u>724,311</u>	<u>(4,323,830)</u>
Nonoperating revenues (expenses):		
Property taxes	1,758,018	1,720,786
Intergovernmental revenue	655,857	89,221
Interest income	766,636	928,744
Net decrease in the fair value of investments	(162,031)	(374,355)
Intergovernmental expenses	(567,158)	(1,001,354)
Interest expense and fiscal charges	(267,506)	(284,242)
Retirement of assets	(39,333)	(1,305,252)
Other	<u>(3,750)</u>	<u>(8,750)</u>
Net nonoperating revenues (expenses)	<u>2,140,733</u>	<u>(235,202)</u>
Net income (loss) before contributions	<u>2,865,044</u>	<u>(4,559,032)</u>
Capital contributions:		
Federal government	2,282,572	140,000
State government	2,916,184	9,486,517
Other	<u>50,000</u>	<u>1,410,246</u>
Total capital contributions	<u>5,248,756</u>	<u>11,036,763</u>
Change in net assets	8,113,800	6,477,731
Net assets, beginning of year (as previously reported)	197,100,204	190,542,748
Prior period adjustments	<u>-</u>	<u>79,725</u>
Net assets, beginning of year (restated)	<u>197,100,204</u>	<u>190,622,473</u>
Net assets, end of year	<u>\$ 205,214,004</u>	<u>\$ 197,100,204</u>

The notes to the financial statements are an integral part of this statement.

Exhibit 3

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 BUDGET AND ACTUAL (BUDGETARY BASIS) - ENTERPRISE FUND
 Years Ended December 31, 2004 and 2003

	2004			Variance
	Budgeted Amounts			With Final
	Original	Final	Actual	Budget
Operating revenue:				
Vessel and cargo services	\$ 18,459,994	\$ 18,459,994	\$ 20,474,040	\$ 2,014,046
Rental of equipment and facilities	1,819,792	1,819,792	2,202,282	382,490
Other	98,665	98,665	436,657	337,992
Total operating revenue	20,378,451	20,378,451	23,112,979	2,734,528
Operating expenses:				
Personnel services	6,455,241	6,455,241	6,111,759	343,482
Contractual services	3,777,934	3,777,934	3,537,463	240,471
Supplies, maintenance and operation of facilities	7,920,094	7,920,094	6,791,682	1,128,412
Heat, light and power	593,093	593,093	553,809	39,284
Depreciation and amortization	6,031,939	6,031,939	5,393,955	637,984
Total operating expenses	24,778,301	24,778,301	22,388,668	2,389,633
Operating income (loss)	(4,399,850)	(4,399,850)	724,311	5,124,161
Nonoperating revenue (expenses):				
Property taxes	1,700,000	1,700,000	1,758,018	58,018
Intergovernmental revenue	90,000	90,000	655,857	565,857
Intergovernmental expense	-	-	(567,158)	(567,158)
Interest income	572,600	572,600	766,636	194,036
Interest expense and fiscal charges	(427,000)	(427,000)	(267,506)	159,494
Other	(20,500)	(20,500)	(43,083)	(22,583)
Net nonoperating revenue (expenses)	1,915,000	1,915,100	2,302,764	387,664
Net income (loss) before other financing sources (budget basis)	(2,484,750)	(2,484,750)	3,027,075	\$ 5,511,825

(continued on next page)

2003			
<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
<u>Original</u>	<u>Final</u>		
\$ 15,357,523	\$ 14,750,107	\$ 15,590,573	\$ 840,466
1,492,395	1,492,395	1,626,396	134,001
<u>357,441</u>	<u>357,441</u>	<u>607,008</u>	<u>249,567</u>
<u>17,207,359</u>	<u>16,599,943</u>	<u>17,823,977</u>	<u>1,224,034</u>
7,190,681	7,190,681	5,788,198	1,402,483
3,424,530	3,739,079	4,573,638	(834,559)
5,189,452	5,339,452	5,762,629	(423,177)
547,495	547,495	588,083	(40,588)
<u>5,501,174</u>	<u>5,501,174</u>	<u>5,435,259</u>	<u>65,915</u>
<u>21,853,332</u>	<u>22,317,881</u>	<u>22,147,807</u>	<u>170,074</u>
<u>(4,645,973)</u>	<u>(5,717,938)</u>	<u>(4,323,830)</u>	<u>1,394,108</u>
1,643,029	1,643,029	1,720,786	77,757
89,367	89,367	89,221	(146)
-	(1,000,000)	(1,001,354)	(1,354)
1,152,425	1,152,425	928,744	(223,681)
(695,422)	(695,422)	(284,242)	411,180
<u>17,500</u>	<u>(1,282,500)</u>	<u>(1,314,002)</u>	<u>(31,502)</u>
<u>2,206,899</u>	<u>(93,101)</u>	<u>139,153</u>	<u>232,254</u>
(2,439,074)	(5,811,039)	(4,184,677)	<u>\$ 1,626,362</u>

(continued on next page)

Exhibit 3

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 BUDGET AND ACTUAL (BUDGETARY BASIS) - ENTERPRISE FUND
 Years Ended December 31, 2004 and 2003
 (Continued)

	2004			Variance With Final Budget
	Budgeted Amounts		Actual	
	Budget	Final		
Other financing sources:				
Appropriation of prior year retained earnings	<u>2,484,750</u>	<u>2,484,750</u>	<u>-</u>	
Net income (loss) before contributions (budget basis)	<u>\$ -</u>	<u>\$ -</u>	3,027,075	
Adjustments:				
Net (decrease) in the fair value of investments			<u>(162,031)</u>	
Net income before contributions (GAAP basis)			2,865,044	
Capital contributions			<u>5,248,756</u>	
Net income (GAAP basis)			8,113,800	
Net assets, beginning of year (as previously reported)			197,100,204	
Prior period adjustments			<u>-</u>	
Net assets, beginning of year (restated)			<u>197,100,204</u>	
Net assets, end of year			<u>\$ 205,214,004</u>	

The notes to the financial statements are an integral part of this statement.

2003			
<u>Budgeted Amounts</u>			Variance
<u>Budget</u>	<u>Final</u>	<u>Actual</u>	<u>With Final</u>
			<u>Budget</u>
<u>12,132,928</u>	<u>12,132,928</u>	<u>-</u>	
<u>\$ 9,693,854</u>	<u>\$ 6,321,889</u>	<u>(4,184,677)</u>	
		<u>(374,355)</u>	
		(4,559,032)	
		<u>11,036,763</u>	
		6,477,731	
		190,542,748	
		<u>79,725</u>	
		<u>190,622,473</u>	
		<u>\$ 197,100,204</u>	

Exhibit 4

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF CASH FLOWS

ENTERPRISE FUND

Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from customers and users	\$ 22,288,393	\$ 19,115,469
Payments to employees and related benefits	(6,073,300)	(5,932,544)
Payments to suppliers	<u>(9,108,507)</u>	<u>(11,351,936)</u>
Net cash provided by operating activities	<u>7,106,586</u>	<u>1,830,989</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating subsidies received from other governments	655,262	89,221
Operating subsidies paid to other governments	<u>-</u>	<u>(1,001,354)</u>
Net cash provided by (used in) noncapital financing activities	<u>655,262</u>	<u>(912,133)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property taxes collected	1,689,233	1,674,798
Capital grants collected	9,487,960	6,023,015
Payments for capital acquisitions	(15,136,421)	(11,499,854)
Principal payments on long-term debt	(1,302,052)	(1,300,647)
Interest and fiscal charges paid (net of amount capitalized)	<u>(70,905)</u>	<u>(84,162)</u>
Net cash (used in) capital and related financing activities	<u>(5,332,185)</u>	<u>(5,186,850)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	20,910,000	25,000,000
Receipts of interest	620,656	798,018
Payments for investments	<u>(26,246,485)</u>	<u>(24,900,000)</u>
Net cash provided by (used in) investing activities	<u>(4,715,829)</u>	<u>898,018</u>
Net (decrease) in cash and cash equivalents	(2,286,166)	(3,369,976)
Cash and cash equivalents:		
Beginning of year	<u>16,537,203</u>	<u>19,907,179</u>
End of year	<u>\$ 14,251,037</u>	<u>\$ 16,537,203</u>

(continued on next page)

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPARATIVE STATEMENTS OF CASH FLOWS
ENTERPRISE FUNDYears Ended December 31, 2004 and 2003
(Continued)

	<u>2004</u>	<u>2003</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 724,311	\$ (4,323,830)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,393,955	5,435,259
Changes in assets and liabilities:		
(Increase) decrease in customer receivables	(785,328)	1,440,517
(Increase) in inventory	(882)	(46,329)
(Increase) in prepaid expenses and other assets	(277,293)	(282,034)
Increase (decrease) in accounts payable and accrued expenses	2,094,831	(234,815)
(Decrease) in deferred revenue	(39,258)	(149,029)
Other	<u>(3,750)</u>	<u>(8,750)</u>
Total adjustments	<u>6,382,275</u>	<u>6,154,819</u>
Net cash provided by operating activities	<u>\$ 7,106,586</u>	<u>\$ 1,830,989</u>
 Schedule of noncash investing, capital, and financing activities:		
Increase (decrease) in grants receivable	\$ (4,239,204)	\$ 5,013,748
(Loss) on property dispositions	(39,333)	(1,305,252)
Net (decrease) in the fair value of investments	(162,031)	(374,355)
Net write-off of uncollectible property taxes	372	4,893

The notes to the financial statements are an integral part of this statement.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

Note 1. Summary of Significant Accounting Policies

The Lake Charles Harbor and Terminal District operates a deep water port on the Calcasieu River Pass to the Gulf of Mexico and embraces all areas served by rail lines, highways, and waterways that converge on Lake Charles, Louisiana.

The financial statements of the Lake Charles Harbor and Terminal District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

A. Reporting Entity

The Lake Charles Harbor and Terminal District is an independent political subdivision of the State of Louisiana and is authorized by Louisiana Revised Statutes 34:201-217. Portions of these statutes were amended and reenacted on May 29, 2003, by Act No. 149 relative to the appointment and terms of the District's Board of Commissioners; to the Board's responsibility for management of the District; and to provide for the employment of a port director; and other matters.

In accordance with the provisions of Act No. 149, the District is governed by a Board of seven commissioners appointed by the Governor, subject to Senate confirmation. Except for initial appointments and terms, commissioners shall serve four year terms. The Governor shall appoint one commissioner each from nominees submitted by the City of Lake Charles, the Calcasieu Parish Police Jury, the Cameron Parish Police Jury, and the City of Westlake. The remaining three commissioners shall be appointed from nominees submitted jointly by the State Legislators who represent any part of the District. No member shall serve more than two consecutive terms. After having served two consecutive terms, a commissioner shall not be eligible for appointment to the Board for a period of eight years after completing the second term.

The District is reported as a stand-alone entity as defined by GASB Statement No. 14, *The Financial Reporting Entity*. The District is neither fiscally dependent on any other local government nor does it provide specific financial benefits to or impose specific financial burdens on any other government. No other potential component units meet the criteria for inclusion in the financial statements of the District.

B. Fund Accounting

The Lake Charles Harbor and Terminal District uses a proprietary fund to report on its financial position and results of operations. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities provided to outside parties are accounted for by an enterprise fund type of the proprietary fund. The District is accounted for as an enterprise fund.

C. Basis of Accounting

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses, excluding depreciation and amortization, are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The District's accounts are organized into a single proprietary fund. The District's operations are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from leasing properties or providing services. Operating expenses include the cost of providing services, administrative services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Under the provisions of GASB Statement 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, the District applies all applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict or contradict GASB pronouncements.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Budgets

Budgetary practices differ from generally accepted accounting principles (GAAP). Perspective differences result from the structure of financial information for budgetary purposes. Changes in fair market value of investment securities are not budgeted by the District. Capital contributions (grants) received by the District also are not budgeted.

During the years ended December 31, 2004 and 2003, budgeted amounts for revenues and other financing sources were decreased \$-0- and \$607,416 and expenditures and other financing uses increased \$-0- and \$2,764,549, respectively. The major part of these changes is represented by increases in intergovernmental expenses and the impairment of assets from those amounts originally budgeted.

E. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include amounts in demand deposits and money market deposits.

Louisiana state statutes, as stipulated in R.S. 39:1271, authorize the District to invest in United States bonds, treasury notes, or certificates, or time certificates of deposit of state banks organized under the laws of Louisiana and national banks having the principal office in the State of Louisiana. The state statutes also authorize the District to invest in any other federally insured investment, or in mutual or trust fund institutions, which are registered with the Securities and Exchange Commission under the Security Act of 1933 and the Investment Act of 1940, and which have underlying investments consisting solely of and limited to securities of the United States government or its agencies. Investing is performed in accordance with investment policies complying with State Statutes and those adopted by the Board of Commissioners.

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the District has stated their investments at fair value at December 31, 2004. Fair value was determined by obtaining "quoted" year end market prices. Cash and cash equivalents, which include cash, demand deposits, and money market deposits are stated at cost.

F. Receivables

Trade receivables are carried at their estimated collectible amounts. Receivables are periodically evaluated for collectibility based on past credit history with customers. Allowance for doubtful accounts is determined on the basis of the evaluation of collectibility.

G. Property Taxes

Property taxes levied in any one year are recognized as revenues of that year. An allowance for uncollectible property taxes is based on historical experience in collecting property taxes.

H. Inventories

Inventories consist of parts, supplies, and fuel and are valued at the lower of cost (first-in, first-out) or market.

I. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the current period are recorded as prepaid expenses and are recognized as expenses in the period benefitted.

J. Restricted Assets

Certain resources are set aside for repayment of revenue bonds. These resources are classified as restricted assets on the balance sheet because their use is limited by applicable covenants.

K. Fixed Assets

Property constructed or acquired by purchase is stated at cost or estimated historical cost if actual historical cost is not available. Donated property received by the District should be stated at the property's fair market value at the time of the donation. Net interest costs are capitalized on major construction projects during the construction period. During the year ended December 31, 2004, total interest cost incurred was \$357,962 of which \$262,206 was

capitalized. During the year ended December 31, 2003, total interest cost incurred was \$339,163 of which \$236,953 was capitalized. Infrastructure assets are capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Assets with an individual cost in excess of \$500 are generally capitalized.

Depreciation is computed using the straight-line method over the following useful lives:

Buildings and marine construction	15 to 40 years
Machinery and equipment	3 to 15 years
Furniture and fixtures	3 to 10 years

L. Compensated Absences

Employees of the District earn annual leave and sick leave for each hour of regular duty, including time the employee is on paid leave or observing a paid holiday, based on the equivalent of years of full-time state service at varying rates. Employees may carry any unused accumulated annual and sick leave forward to succeeding years. As a result, there is no limit on the amount of such leave an individual may accumulate through the years of his employment. Upon his retirement or resignation, he must be paid at his current rate of pay, for all unused annual leave in an amount not to exceed 300 hours. An employee cannot be paid for any unused sick leave upon separation.

Effective July 12, 1989, employees who are required to perform overtime duty may, at the option of the District, be credited with compensatory leave for the hours they have been required to work. Upon separation from the District such employees will be paid for accumulated compensatory leave.

M. Net Assets

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

N. Bond Issuance Costs

Bond issuance costs reported as prepaid and unamortized expense on the balance sheet are recorded as deferred charges and are amortized over the term of the bonds using a method which approximates the effective interest method.

O. Cash Flows Statement

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the date of purchase, they have a maturity date no longer than three months.

Note 2. Legal Compliance - Budget

The Port Director prepares a proposed budget and submits same to the Board of Commissioners no later than fifteen days prior to the beginning of each fiscal year. The budget is prepared by function and activity, and includes information on the past year, current year estimates and requested appropriations for the next year.

A summary of the proposed budget is published, a public hearing is held, and the budget is adopted through passage of a resolution prior to the commencement of the fiscal year for which the budget is adopted.

All changes in the budget must be approved by an affirmative vote of a majority of the Board of Commissioners.

Expenditures may not legally exceed budget appropriations at the division level.

Note 3. Cash, Cash Equivalents and Investments

In accordance with a fiscal agency agreement which is approved by the Board of Commissioners, the District maintains demand and time deposits through an administrator bank at participating local depository banks which are members of the Federal Reserve System.

For reporting purposes, cash and cash equivalents include cash and demand deposits. Investments of the District include U.S. Government Agencies securities, each having an original maturity in excess of three months from the date acquired.

The District's deposits as of the balance sheet dates are entirely covered by FDIC insurance or by pledged collateral held by the District's agent banks in the District's name. Under state law these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent.

Local governments in Louisiana are authorized to invest in the Louisiana Asset Management Pool, Inc. (LAMP), a nonprofit corporation formed by an initiative of the State Treasurer and organized under the laws of the State of Louisiana, which operates a local government investment pool. Investments are stated at cost, which approximates market and is equal to the value of the pool shares.

Investments held at December 31, 2004 and 2003, consist of \$2,694,311 and \$9,628,779, respectively, in LAMP. In accordance with GASB Codification Section I50.126, the investment in LAMP at December 31, 2004 and 2003, is not categorized in the three risk categories provided by GASB Codification Section I50.125 because the investment is in the pool of funds and therefore not evidenced by securities that exist in physical or book entry form. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest. Accordingly, LAMP investments are restricted to securities issued, guaranteed, or backed by the U.S. Treasury, the U.S. Government, or one of its agencies, enterprises, or instrumentalities, as well as repurchase agreements collateralized by those securities. The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances.

The following chart presents bank balances as of December 31, 2004 and 2003. The deposits are listed in terms of risk involved. Category 1 represents those deposits insured (inclusive of FDIC) or collateralized with securities held by the District or its agent in the District's name. Category 2 represents deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. Category 3 represents deposits uncollateralized including any securities held for the entity but not in the District's name.

	Bank Balances				
	Category			Total Bank	Carrying
December 31, 2004	1	2	3	Balances	Amount
Cash and demand deposits	\$ 100,000	\$11,708,662	\$ -	\$11,808,662	\$10,219,189
Money market deposits	<u>1,337,537</u>	<u>-</u>	<u>-</u>	<u>1,337,537</u>	<u>1,337,537</u>
	<u>\$ 1,437,537</u>	<u>\$11,708,662</u>	<u>\$ -</u>	<u>\$13,146,199</u>	<u>\$11,556,726</u>

	<u>Bank Balances</u>				
	<u>Category</u>			<u>Total Bank</u>	<u>Carrying</u>
December 31, 2003	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balances</u>	<u>Amount</u>
Cash and demand deposits	\$ 100,000	\$ 1,999,372	\$ -	\$ 2,099,372	\$ 1,827,582
Money market deposits	<u>5,380,842</u>	<u>-</u>	<u>-</u>	<u>5,380,842</u>	<u>5,380,842</u>
	<u>\$ 5,480,842</u>	<u>\$ 1,999,372</u>	<u>\$ -</u>	<u>\$ 7,480,214</u>	<u>\$ 7,208,424</u>

Following are investments of the District at year end categorized to give an indication of the level of risk assumed by the District. Category 1 includes investments that are insured or registered, or for which the securities are held by the District or its agent in the name of the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the name of the District. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution, or by its trust department or agent but not in the name of the District.

	<u>Category</u>			<u>Reported Amount - Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
December 31, 2004				
U.S. Government Agencies securities	<u>\$ 24,995,034</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,995,034</u>

December 31, 2003	Category			Reported
	1	2	3	Amount - Fair Value
U.S. Government Agencies securities	<u>\$ 19,520,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,520,580</u>

In order to accurately compare the cash and investments shown on the balance sheet (Exhibit 1) with the carrying values of deposits and investments disclosed in the schedules above, the following is provided at December 31, 2004 and 2003:

	2004	2003
Carrying value of bank deposits per Note 3	\$ 11,556,726	\$ 7,208,424
Carrying value of LAMP deposits per Note 3	2,694,311	9,628,779
Carrying value of investments per Note 3	<u>24,995,034</u>	<u>19,520,580</u>
Total	<u>\$ 39,246,071</u>	<u>\$ 36,357,783</u>
Per statement of fund net assets:		
Cash and cash equivalents	\$ 12,325,454	\$ 9,570,886
Investments-current	4,454,100	6,489,762
Cash equivalents-restricted	1,925,583	6,966,317
Investments-current restricted	-	608,818
Investments-noncurrent unrestricted	3,748,507	-
Investments-noncurrent restricted	16,792,427	12,422,000
Investments-scholarship endowment	<u>-</u>	<u>300,000</u>
Total	<u>\$ 39,246,071</u>	<u>\$ 36,357,783</u>

At December 31, 2004 and 2003, cash equivalents and investments were restricted as shown below:

	2004	2003
Collateral required by Hibernia Letter of Credit and reimbursement Agreement	\$ 12,403,432	\$ 13,513,648
Trust funds pursuant to the issuance of the 1994 Port Improvement Revenue Bonds:		
Principal Fund	1,337,537	1,250,000
Debt Service Reserve Fund	2,487,425	2,616,743
Depreciation Reserve Fund	<u>2,489,615</u>	<u>2,616,744</u>
Total	<u>\$ 18,718,009</u>	<u>\$ 19,997,135</u>

The trust funds are more fully explained in Note 11.

The District requires that securities underlying repurchase agreements, consisting of U.S. government securities, must have a market value of at least 102 percent of the repurchase agreement. The District held no repurchase agreements during 2004.

Note 4. Allowances for Doubtful Accounts

The changes in allowances for doubtful accounts during 2004 follow:

	<u>Contribution Receivable</u>	<u>Trade Receivables</u>	<u>Property Taxes</u>
Balance January 1, 2004	\$ -	\$ 9,150	\$ 17,208
Additions	100,000	105,955	372
Recoveries	<u>-</u>	<u>-</u>	<u>-</u>
Balance December 31, 2004	<u>\$ 100,000</u>	<u>\$ 115,105</u>	<u>\$ 17,580</u>

The changes in allowances for doubtful accounts during 2003 follow:

	<u>Trade Receivables</u>	<u>Property Taxes</u>
Balance January 1, 2003	\$ -	\$ 13,955
Additions	9,150	4,893
Recoveries	<u>-</u>	<u>(1,640)</u>
Balance December 31, 2003	<u>\$ 9,150</u>	<u>\$ 17,208</u>

Note 5. Property Taxes

The Lake Charles Harbor and Terminal District is authorized by Louisiana Revised Statute Number 34:209 to levy annually, when necessary, a property tax not to exceed 2.92 mills on the property subject to taxation situated within the District. All funds derived from this tax may be used for any lawful expenses or purposes by the Board. The 2004 assessed millage is 2.74 mills. The 2003 assessed millage was 2.87 mills.

Property taxes are levied on behalf of the District each November 15, the date the enforceable lien attaches, by the Tax Assessor for the Parish of Calcasieu. The levy is based on the assessed value listed as of June 1. Assessed values are established by the Tax Assessor and are approved and certified by the State Tax Commission. The tax levy is approved and certified by the Louisiana Legislative Auditor.

Total taxes levied for the year ended December 31, 2004 were \$1,818,190 on property with assessed valuation totaling \$920,206,820 less exempt valuation of \$256,633,810, for a net valuation of \$663,573,010.

Total taxes levied for the year ended December 31, 2003 were \$1,779,281 on property with assessed valuation totaling \$864,517,560 less exempt valuation of \$244,561,170, for a net valuation of \$619,956,390.

The Sheriff and Tax Collector for the Parish of Calcasieu bills and collects taxes for the District. Taxes are due and payable on or before December 31. Interest charges are assessed on delinquent taxes at a rate of 15% per annum. Deductions from tax collections, for the billing and collection of taxes, totaled \$60,175 for 2004 and \$58,490 for 2003.

Note 6. Intergovernmental Receivable

Intergovernmental receivable represents amounts due from federal and state governments for the following:

	<u>2004</u>	<u>2003</u>
Capital projects-State of Louisiana Ports Priority Program	\$ 616,813	\$ 558,628
Capital projects-State of Louisiana	<u>1,963,123</u>	<u>6,727,076</u>
	<u>\$ 2,579,936</u>	<u>\$ 7,285,704</u>

Note 7. Property, Plant and Equipment

A summary of changes in property, plant and equipment for the year ended December 31, 2004 and 2003 is as follows:

<u>2004</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>End of Year</u>
Land	\$ 25,253,582	\$ -	\$ -	\$ 25,253,582
Buildings and operating facilities	190,597,181	4,205,756	-	194,802,937
Equipment, furniture and fixtures	19,803,486	322,609	577,330	19,548,765
Construction in progress	<u>30,179,031</u>	<u>13,446,265</u>	<u>5,922,463</u>	<u>37,702,833</u>
	265,833,280	17,974,630	6,499,793	277,308,117
Less accumulated depreciation	<u>90,025,125</u>	<u>5,393,955</u>	<u>537,997</u>	<u>94,881,083</u>
Total	<u>\$ 175,808,155</u>	<u>\$ 12,580,675</u>	<u>\$ 5,961,796</u>	<u>\$ 182,427,034</u>

<u>2003</u>	<u>Beginning of Year (Restated)</u>	<u>Additions</u>	<u>Reductions</u>	<u>End of Year</u>
Land	\$ 23,188,958	\$ 2,065,796	\$ 1,172	\$ 25,253,582
Buildings and operating facilities	181,229,621	9,367,560	-	190,597,181
Equipment, furniture and fixtures	20,138,973	237,960	573,447	19,803,486
Construction in progress	<u>27,923,258</u>	<u>12,806,708</u>	<u>10,550,935</u>	<u>30,179,031</u>
	252,480,810	24,478,024	11,125,554	265,833,280
Less accumulated depreciation	<u>84,831,039</u>	<u>5,435,259</u>	<u>241,173</u>	<u>90,025,125</u>
Total	<u>\$ 167,649,771</u>	<u>\$ 19,042,765</u>	<u>\$ 10,884,381</u>	<u>\$ 175,808,155</u>

Depreciation expense was \$5,393,955 for the year ended December 31, 2004 and \$5,435,259 for the year ended December 31, 2003.

Note 8. Operating Leases

Leases which the District has entered into as lessor are classified as operating leases. Following is a summary of property held for lease at December 31, 2004:

Land	\$ 6,611,998
Buildings	<u>8,618,662</u>
	15,230,660
Less accumulated depreciation	<u>2,961,685</u>
	<u>\$ 12,268,975</u>

Minimum future rentals on operating leases having initial or remaining noncancellable lease terms in excess of one year are as follows:

2005	\$ 1,460,620
2006	1,218,755
2007	1,005,269
2008	607,885
2009	365,174
After 2009	<u>1,025,524</u>
	<u>\$ 5,683,227</u>

Of the above, the amount of \$737,203 was paid in full at the inception of the lease by the lessee, and is included in deferred revenues at December 31, 2004. The amount of \$886,256 is included in deferred revenues at December 31, 2003.

Note 9. Unamortized Expense

The District incurs certain expenses in connection with the issuance of revenue bonds. These expenses are being amortized over twenty-five years, which is the term of the bonds. Details of the balances are as follows at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Total expense	\$ 438,368	\$ 438,368
Less amount amortized	<u>192,882</u>	<u>175,347</u>
Unamortized at December 31	<u>\$ 245,486</u>	<u>\$ 263,021</u>
Amount shown in current assets (prepaid expenses)-to be amortized in one year	\$ 17,535	\$ 17,535
Amount shown in other assets	<u>227,951</u>	<u>245,426</u>
Total	<u>\$ 245,486</u>	<u>\$ 263,021</u>

Note 10. Compensated Absences

Compensated absences are included in personnel services expenses for 2004. The District's liabilities for accumulated compensated absences as of December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Current liabilities-estimated to be paid within one year	\$ 42,261	\$ 43,018
Long-term liabilities	<u>380,344</u>	<u>387,163</u>
Total	<u>\$ 422,605</u>	<u>\$ 430,181</u>

Note 11. Noncurrent Liabilities

Long-Term Bonded Debt:

Bonds payable at December 31, 2004 and 2003 are comprised of the following:

	<u>2004</u>	<u>2003</u>
Revenue Bonds:		
\$25,000,000 1994 Port Improvement Revenue Bonds, interest due in quarterly installments beginning March 1, 1994 through January 1, 2019; interest initially set at 2.65 percent variable rate adjusted weekly	<u>\$ 18,750,000</u>	<u>\$ 20,000,000</u>

Debt service requirements related to bonds outstanding as of December 31, 2004 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,250,000	\$ 363,193
2006	1,250,000	336,273
2007	1,250,000	310,406
2008	1,250,000	284,539
2009	1,250,000	258,671
2010-2014	6,250,000	905,350
2015-2019	6,250,000	258,671

Variable interest rate set by Bankers Trust of New York based on market rates of AA tax exempt bond rates, adjusted weekly. At December 31, 2004, the rate was 2.05%. This rate was used to calculate the above debt service requirements.

In addition to the pledge of specific revenues, all excess revenues of the District are pledged as additional security for certificates of indebtedness outstanding.

The District, on February 16, 1994, issued \$25,000,000 Port Improvement Revenue Bonds, Series 1994. Proceeds from such bonds are dedicated to certain additions, extensions and improvements to the District facilities by construction of an extension to a transit shed, and construction of improvements to the bulk loading terminal of the District located on the Calcasieu ship channel of the Calcasieu River. The payment of principal and interest on the bonds is secured by a dedication and pledge of the fees, rates and other charges and other

monies derived from the operation of the public port. The bonds are subject to scheduled mandatory sinking fund redemption on January 1, 2000 and on each January 1 thereafter to and including January 1, 2019 each in the amount of \$1,250,000 plus interest. The interest rate mode for the bonds is a weekly "variable rate" and the rate for the initial weekly period was set at 2.65% per annum. Interest is payable on each March 1, June 1, September 1, and December 1 of each year.

The bonds are subject to applicable federal arbitrage regulations.

There are a number of limitations and restrictions contained in the bond indentures and in the Letter of Credit and Reimbursement Agreement related to this \$25,000,000 Port Improvement Revenue Bond, Series 1994 issue.

The Lake Charles Harbor and Terminal District has committed itself to certain covenants as described in the Trust Indenture and Letter of Credit Agreement. In August of 2004, the District replaced its Letter of Credit provider and entered into a new Letter of Credit and Reimbursement Agreement (LOC). The LOC contains certain covenants such as those relating to reporting financial information to the letter of credit bank and maintaining adequate insurance with respect to the properties and activities of the District. Additionally, the LOC currently requires liquid collateralization of the entire amount of bonds outstanding.

The following trust funds were established pursuant to the issuance of the bonds:

"Project Fund" - The balance of the proceeds of the issuance and sale of the Bonds were deposited into this account and a "Cost of Issuance Account". The Issuer shall designate the part to be deposited into the Cost of Issuance Account. Amounts deposited in the Project Fund shall be applied to the construction, acquisition, installation and equipping of the Project.

"Bond Fund" consisting of an Interest Account, a Principal Account and a Letter of Credit Account - Moneys on deposit in the Interest Account shall be applied to pay interest on the Bonds when due. Moneys on deposit in the Principal Account shall be applied to pay principal of the Bonds when due. The Trustee shall deposit all moneys drawn under the Letter of Credit to pay principal of and interest on the Bonds directly in the Letter of Credit Account. Such moneys shall be applied solely to the payment of the principal of and interest on the Bonds in respect of which they were so drawn.

"Debt Service Reserve Fund" - The District has deposited \$2,500,000 Debt Service Reserve Fund requirement into this account to be used in accordance with the Trust Indenture for the payment of principal and interest on the Bonds.

"Depreciation Reserve Fund" - The District has deposited \$2,500,000 Depreciation Reserve Fund requirement into this account. Moneys in this account shall be transferred to the Project Fund to the extent of any insufficiency in the moneys on deposit in the Project Fund for the purpose of completing the acquisition, construction, installation and equipping of the Project. After the completion date, moneys on deposit in the Depreciation Reserve Fund shall be used for the purpose of paying the costs of major repairs and replacements to the system, the costs of which are such that they should be spread over a number of years rather than charged as part of operating and maintenance expenses in any single year. Moneys from the Depreciation Reserve Fund shall also be used to fund insufficiencies in the Principal Account and/or the Interest Account on any date on which principal of and/or interest on the Bonds is due and payable.

"Rebate Fund" - This fund shall be for the sole benefit of the United States of America and shall not be subject to the claim of any other person, including without limitation the bondholders and the bank. The Rebate Fund is established for the purpose of complying with Section 148 of the Code and the Treasury Regulations promulgated pursuant thereto.

Long-Term Rent Payable:

Long term rent payable consist of the following at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Rent payable	\$ 291,433	\$ 346,365
Less current portion	<u>51,615</u>	<u>54,495</u>
	<u>\$ 239,818</u>	<u>\$ 291,870</u>

Rent payments related to the long-term rent payable are as follows:

<u>Years Ending</u> <u>December 31, 2004</u>	<u>Payments</u>
2005	\$ 51,615
2006	53,034
2007	54,625
2008	56,401
2009	58,375
Thereafter	<u>17,383</u>
	<u>\$ 291,433</u>

In June of 1999, the District entered into a development agreement with the Calcasieu Parish Police Jury. Under this agreement, the Parish would pay \$2,000,000 to the District in three equal installments beginning on July 1, 1999 to assist in the removal of spoilage. In exchange for this contribution, the Parish will share in the lease revenues received by the District from the tenant until the Parish had received \$500,000 of such revenues. The District would also make any excess spoils available to the Parish at no cost. In addition, the District conveyed to the Parish, a water tower and water treatment equipment. The results of this arrangement are a short-term payable of \$51,615 and a long-term payable of \$239,818 at December 31, 2004. At December 31, 2003 the short-term payable was \$54,495 and the long-term payable was \$291,870.

Changes in Noncurrent Liabilities:

Noncurrent liabilities activity for the year ended December 31, 2004 and 2003 are as follows:

	<u>January 1,</u> <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31,</u> <u>2004</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	\$ 20,000,000	\$ -	\$ 1,250,000	\$ 18,750,000	\$ 1,250,000
Rent Payable	<u>346,365</u>	<u>-</u>	<u>54,932</u>	<u>291,433</u>	<u>51,615</u>
	<u>\$ 20,346,365</u>	<u>\$ -</u>	<u>\$ 1,304,932</u>	<u>\$ 19,041,433</u>	<u>\$ 1,301,615</u>

	<u>January 1,</u> <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31,</u> <u>2003</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	\$ 21,250,000	\$ -	\$ 1,250,000	\$ 20,000,000	\$ 1,250,000
Rent Payable	<u>391,789</u>	<u>-</u>	<u>45,424</u>	<u>346,365</u>	<u>54,495</u>
	<u>\$ 21,641,789</u>	<u>\$ -</u>	<u>\$ 1,295,424</u>	<u>\$ 20,346,365</u>	<u>\$ 1,304,495</u>

Note 12. Port Facilities Revenue Bonds

On occasion, the District facilitates the issuance of tax-exempt bonds to finance the construction of industrial facilities within the District's boundaries. The facilities constructed or assets purchased with the bond proceeds are not owned by the District nor are the bonds themselves guaranteed in any manner by the District. These bonds are not included in the financial statements nor in the preceding schedules in Note 11 pertaining to noncurrent liabilities. The bonds and the interest coupons appertaining thereto do not constitute an indebtedness of the issuer within the meaning of any state constitutional or statutory limitation and shall never constitute nor give rise to a pecuniary liability of the issuer or a charge against its general credit or taxing powers.

Following is a summary of port facilities revenue bonds outstanding at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Bonds issued for:		
Citgo Petroleum Corp. Project, Series 1984	\$ 11,800,000	\$ 11,800,000
Polycom-Huntsman, Inc. Project, Series 1995	8,000,000	8,000,000
Conoco, Inc. Project, Series 1999A	20,900,000	20,900,000
Conoco, Inc. Project, Series 1999B	3,400,000	3,400,000

Note 13. Retirement Benefits

Defined benefit pension plan:

Plan description:

The District contributes to the Louisiana State Employees' Retirement System (LASERS). The LASERS was established on July 1, 1947, and is the administrator of a cost-sharing multiple-employer public employee retirement system. The system was established and provided for within Title 11, Subtitle 11, Chapter 1 of the Louisiana Revised Statutes (LRS). Benefit provisions are authorized within LRS 11:441-501. The LASERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing the LASERS, PO Box 44213, Baton Rouge, LA 70804-4213 or by calling 1-225-922-0600.

All District full-time employees, as defined, are eligible for membership to LASERS. Benefits vest after ten years of participation.

A member is eligible to retire after 10 years of service at age 60, 25 years at age 55, or after 30 years at any age. The system does provide for deferred benefits for vested members who terminate before being eligible for retirement. Once the member reaches the appropriate age for retirement, benefits become payable at a rate of 2.5% of the highest 3 consecutive years of creditable service. Once an employee has accumulated 10 years of service, disability benefits apply based on the regular benefit formula without age restrictions.

Act 14 of the 1990 Louisiana Legislature provided for a new retirement option designated as the Deferred Retirement Option Plan (DROP). This option permits LASERS members to continue working at their state jobs for up to three years while in a retired status. DROP allows these retirees to accumulate retirement benefits in a special account for later distribution.

Funding policy:

Covered employees were required by Louisiana state statute to contribute 7.5% of their salary to the plan. The current employer rate is 17.8% of annual covered payroll. The contribution requirements of plan members and the employer are established by, and may be amended by, state law. As required by state law, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year.

The District's contributions to the Louisiana State Employees' Retirement System for each of the years ending December 31, 2004, 2003 and 2002 are presented below:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Employer's contribution	\$ 530,486	\$ 460,032	\$ 426,377
Employees' contribution	<u>236,761</u>	<u>230,540</u>	<u>235,826</u>
Total	<u>\$ 767,247</u>	<u>\$ 690,572</u>	<u>\$ 662,203</u>

Post-retirement benefits:

By action of the Board of Commissioners, in addition to the pension benefits described in Note 13, the District provides postretirement health care insurance benefits for retired employees. In 2004, the District paid 80% of the retirees' and retirees' dependents' premiums. In 2003, the District paid these premiums in full.

During 2004, thirty-eight (38) retired employees were receiving benefits under this plan. During 2003, thirty-three (33) retired employees participated. These postretirement benefits are financed on a "pay-as-you-go basis" and the District recognizes the cost by expensing the annual insurance premiums. Total net cost to the District amounted to \$268,224 for 2004 and \$323,370 for 2003. The participants' share of the costs totaled \$67,056 for 2004 and \$-0- for 2003.

Effective January 1, 2004, the District will pay 60% of the premiums for retiree's dependents.

Deferred compensation plan:

Certain employees of the District have elected to participate in the Louisiana Public Employees Deferred Compensation Plan. The plan, available to all full time District employees, permits them to defer a portion of their salary until termination of employment, retirement, total disability, death, or unforeseeable emergency. All deferred compensation, property and rights purchased with such deferred compensation, and income or earnings thereon shall constitute assets of the State of Louisiana and remain (until made available to a participant or beneficiary) the property of the State of Louisiana, subject to the claims of the general creditors of the State of Louisiana. No assets or liabilities related to this plan are included in the financial statements of the District and all amounts held by the plan do not constitute an indebtedness of the District.

During the first four months of 2003, the District matched dollar for dollar each participating employee's contribution up to 6% of the employee's base income. In May, 2003, the District discontinued its matching contribution. The contributions for the year ended December 31, 2004 consisted of \$151,663 from employees and \$-0- from the District. Contributions for the year ended December 31, 2003 consisted of \$164,326 from employees and \$60,153 from the District.

Note 14. Risk Management

In June, 2004, the District elected to enter into a joint cooperative agreement with the Calcasieu Parish Police Jury to implement a combined health and medical self-insurance plan for the employees of the District. The plan provides for both specific stop-loss and aggregate stop-loss coverage. For any one participant, the District is liable for the first \$100,000 of claims in any one calendar year. The aggregate stop-loss coverage will pay all claims over a maximum amount, which is calculated by multiplying the number of employees covered each month by the monthly stop-loss unit, which is determined by the insurance underwriter. Any claims not paid by the end of the calendar year will be considered in the

calculation of next year's stop-loss coverage. In the aggregate, the amount of settlements have not exceeded insurance coverage in either of the two years that the plan has existed. Nonincremental claims adjustment expenses have been included as part of the liability for claims and judgments.

Changes in the balances of claims liabilities during the past year are as follows:

Unpaid claims, January 1, 2003	\$ -
Incurred and adjusted claims	116,067
Claim payment	(116,067)
Unpaid claims, January 1, 2004	-
Incurred and adjusted claims	1,158,963
Claim payments	<u>(1,041,512)</u>
Total unpaid claims, December 31, 2004	<u>\$ 117,451</u>

Note 15. Contingent Liabilities and Commitments

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for the risks of losses to which it is exposed, including general liability, property and casualty, workers' compensation, employee health and accident, and environmental.

At December 31, 2004, the District had committed approximately \$1.2 million for the purchase of equipment, the expansion of facilities, and repairs and maintenance of existing facilities. Such commitments at December 31, 2003 totaled approximately \$8.8 million.

The District is involved in various lawsuits in the ordinary course of business. Management believes that the District's exposure will not exceed insurance coverage except for possible payment of insurance deductibles.

A large pile of petroleum coke mixed with barite, rutile and other materials has been stockpiled as waste material at the Bulk Terminal No. 1 facility. The cost of removal of the material is currently not determinable.

The U.S. Department of Labor rendered a ruling against the Lake Charles Stevedores regarding its failure to properly pay longshoremen overtime wages. Some of the hours at issue relate to hours worked providing services to the District. A potential claim against the District by Lake Charles Stevedores exists, but the amount is presently undetermined.

The District currently has two pending "Notice of Violations" and a warning letter from Louisiana Department of Environmental Quality (DEQ). This is simply an allegation of violations which is on appeal through a normal administrative hearing process before the DEQ.

Note 16. Deferred Revenues

The District has entered into several leases wherein the lessee has paid the total rentals due at the inception of the lease. Payment for the 2004 settlement of homestead exemption was received in 2004 and is shown as a deferred revenue. Details of the items comprising this account were as follows:

	<u>Term Years</u>	<u>Total Rent</u>	<u>Deferred 12/31/04</u>	<u>Deferred 12/31/03</u>
Trunkline LNG land lease	40	\$ 741,907	\$ 222,572	\$ 241,119
Trunkline LNG land lease	40	1,208,430	395,607	425,780
Gulf Coast Aluminum land lease	40	667,891	49,580	66,578
Geo Specialty land & building lease	3	250,000	69,444	152,778
Various short-term leases			109,785	-
Homestead exemption settlement			<u>29,773</u>	<u>29,765</u>
Total			<u>\$ 876,772</u>	<u>\$ 916,020</u>

Note 17. Unrestricted Net Assets

All net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt" are classified as unrestricted net assets.

The Board of Commissioners of the Lake Charles Harbor and Terminal District has designated a portion of unrestricted net assets to be used for the following purposes:

	<u>2004</u>	<u>2003</u>
Commitments on construction contracts	\$ 1,240,048	\$ 8,771,104
Scholarship endowment	-	300,000
Debt service	-	5,000,000

During 2004, the District removed designations of unrestricted net assets associated with the District's scholarship endowment and debt service.

Note 18. Budgetary - GAAP Reporting Reconciliation

The accompanying Statement of Revenues, Expenses, and Changes in Net Assets Budget and Actual (Budgetary Basis)-Enterprise Fund presents comparisons of the legally adopted budget (more fully described in Note 1) with actual data on a budgetary basis. The change in fair value of investment securities was not budgeted. Capital contributions were also not budgeted. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), reconciliations of resultant basis and perspective differences in net income for the year ended December 31, 2004 and 2003 are presented on the budgetary comparison statement, Exhibit 3.

Note 19. Major Customers

A significant portion of the District's operating revenue has been derived from four major customers in 2004 and 2003:

each of the four customers accounted for 15%, 20%, 4% and 17%, respectively, in 2004;

each of the four customers accounted for 12%, 16%, 11% and 13%, respectively, in 2003.

Trade receivables due from these customers as of December 31, 2004 and 2003 represented the following percentage of total trade receivables.

each of the four customers accounted for 22%, 0%, 17% and 16%, respectively, in 2004;

each of the four customers accounted for 20%, 0%, 0% and 12%, respectively, in 2003.

Note 20. Prior Period Adjustments (2003)

Net assets at the beginning of 2003 has been adjusted to correct errors made in prior years. The errors had no effect on net income for 2003. The adjustments are described as follows:

Unrecorded contribution received by the District	\$ 3,193,173
Construction projects abandoned and not previously removed from the financial statements	(504,679)
Amounts incorrectly classified as construction in progress rather than operating expenses	(245,611)
Impairment of fixed assets	<u>(2,363,158)</u>
Net effect of prior period adjustments	<u>\$ 79,725</u>

Note 21. Change in Accounting Estimate

During 2004, the District resolved contract negotiations with two of its major customers. As a result of these negotiations, the District received payments on several past due invoices that had been estimated as uncollectible at December 31, 2003.

As a result of this change in accounting estimate, the District recognized revenue in 2004, in the amount of \$3,669,189. The negotiations also resulted in the District incurring obligations to pay settlement charges to those customers in the amount of \$1,454,829. The net effect of the change in accounting estimate on the District's change in net assets is an increase of \$2,214,360.

Note 22. Subsequent Event

In February, 2005, the Board of Commissioners approved a settlement agreement with the Lake Charles Stevedores (LCS) relative to unloading rates.

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SUPPLEMENTARY INFORMATION

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF SUPPLEMENTARY INFORMATION

December 31, 2004

Insurance policies in force as of December 31, 2004:

<u>Policy Provider</u>	<u>Policy Number</u>	<u>Policy Type</u>	<u>Policy Period</u>
The Fidelity and Deposit Co. of Maryland	CCP002364703	Crime	10/11/04-10/01/07
Lexington Insurance Co.	453439	General liability	10/01/04-10/01/05
Great American Insurance Company	OMH229110409	Hull & machinery	06/25/04-06/25/05
Great American Insurance Company	OMH538938405	Pollution	06/25/04-06/25/05
Continental Casualty Company	B1075017789	Inland marine	12/29/04-12/29/05
Lloyd's of London	EMM04-246	Maritime employers liability	06/18/04-06/18/05
National Union Fire Insurance Company	7204799	Public officials liability	10/01/04-10/01/05
Steadfast Insurance Company	SCC3618870-06	Railroad liability	10/01/04-10/01/05
Lexington Insurance Company	0967907	Commercial property insurance	01/01/04-01/01/05
Crum and Forester	2450039013	Excess property	01/01/04-01/01/05
Lloyd's of London	711/NA000020C	Excess property	01/01/04-01/01/05
Lloyd's of London	711/NA000040C	Excess property	01/01/04-01/01/05
Lloyd's of London	711/NA000030C	Excess property	01/01/04-01/01/05
The Hartford	ETB101464	Travel accident	10/03/03-10/03/06
Louisiana Worker Compensation Corporation	100501-D	Workers compensation	06/18/04-06/18/05
Navigators Insurance Company	PP0400692	Excess liability	10/01/04-10/01/05
American Home Assurance	R0579	Excess liability	10/01/04-10/01/05
Federal Insurance Company	7319757	Excess liability	10/01/04-10/01/05
Navigators Insurance Company	SE04LIA858381	Excess liability	10/01/04-10/01/05
Wausau	ASC-Z91-433903-014	Commercial automobile	04/15/04-04/15/05
Stop loss carrier through CPPJ	Self insured with CPPJ	Health care	12/31/04-12/31/05

STATISTICAL SECTION
(UNAUDITED)

Table 1

LAKE CHARLES HARBOR AND TERMINAL DISTRICT
SUMMARY OF REVENUES AND EXPENSES
Years Ended December 31, 1995 through 2004
(Unaudited)

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
OPERATING REVENUES				
Charges for services	\$ 11,857,442	\$ 12,309,105	\$ 12,613,736	\$ 14,595,917
Rentals	1,268,743	1,693,942	1,695,875	1,482,600
Other	<u>151,339</u>	<u>271,453</u>	<u>154,347</u>	<u>240,585</u>
Total	<u>13,277,524</u>	<u>14,274,500</u>	<u>14,463,958</u>	<u>16,319,102</u>
OPERATING EXPENSES				
General and administrative	2,412,455	3,228,405	3,005,827	3,496,882
Maintenance and operation of facilities	8,388,604	9,411,707	10,837,248	10,909,656
Depreciation	<u>3,267,835</u>	<u>3,540,375</u>	<u>3,703,876</u>	<u>3,829,564</u>
Total	<u>14,068,894</u>	<u>16,180,487</u>	<u>17,546,951</u>	<u>18,236,102</u>
Income (loss) from operations	(791,370)	(1,905,987)	(3,082,993)	(1,917,000)
NONOPERATING REVENUES (EXPENSES) - NET	<u>7,218,948</u>	<u>6,502,668</u>	<u>7,087,714</u>	<u>7,032,611</u>
Net income (loss)	<u>\$ 6,427,578</u>	<u>\$ 4,596,681</u>	<u>\$ 4,004,721</u>	<u>\$ 5,115,611</u>

Table 1

<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
\$ 12,969,494	\$ 14,743,289	\$ 14,135,754	\$ 13,772,957	\$ 15,590,573	\$ 20,474,040
1,606,262	1,862,191	1,767,604	1,583,269	1,626,396	2,202,282
<u>346,411</u>	<u>353,057</u>	<u>831,035</u>	<u>435,520</u>	<u>607,008</u>	<u>436,657</u>
<u>14,922,167</u>	<u>16,958,537</u>	<u>16,734,393</u>	<u>15,791,746</u>	<u>17,823,977</u>	<u>23,112,979</u>
3,950,651	4,135,600	3,624,189	4,692,137	5,788,198	6,111,759
11,858,862	12,036,782	11,926,443	12,169,140	10,924,350	10,882,954
<u>3,893,624</u>	<u>3,909,319</u>	<u>5,167,459</u>	<u>5,428,032</u>	<u>5,435,259</u>	<u>5,393,955</u>
<u>19,703,137</u>	<u>20,081,701</u>	<u>20,718,091</u>	<u>22,289,309</u>	<u>22,147,807</u>	<u>22,388,668</u>
(4,780,970)	(3,123,164)	(3,983,698)	(6,497,563)	(4,323,830)	724,311
<u>3,104,100</u>	<u>6,453,729</u>	<u>3,311,563</u>	<u>2,646,182</u>	<u>(235,202)</u>	<u>2,140,733</u>
<u>\$ (1,676,870)</u>	<u>\$ 3,330,565</u>	<u>\$ (672,135)</u>	<u>\$ (3,851,381)</u>	<u>\$ (4,559,032)</u>	<u>\$ 2,865,044</u>

Table 2

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SHIPPING ACTIVITIES
BULK AND GENERAL CARGO
(Unaudited)2004 MONTHLY GENERAL CARGO
(Tons)

<u>Month</u>	<u>Rice</u>	<u>Flour</u>	<u>Forest Products</u>	<u>Grain Products</u>	<u>Misc.</u>
January	8,694	1,102	-	33,227	10,129
February	16,275	-	-	39,518	9,937
March	45,189	-	-	31,093	6,099
April	16,979	-	1,095	12,444	7,724
May	21,252	2,293	-	28,090	9,629
June	4,436	442	-	2,933	7,337
July	20,358	802	27	15,169	15,448
August	20,288	276	19,001	18,544	16,465
September	22,296	-	14,221	-	2,249
October	17,551	-	22,583	13,551	7,257
November	35,695	-	16,959	23,960	3,143
December	34,507	-	20,784	9,683	11,297
	<u>263,520</u>	<u>4,915</u>	<u>94,670</u>	<u>228,212</u>	<u>106,714</u>

2004 MONTHLY BULK CARGO
(Tons)

<u>Month</u>	<u>Petro Coke</u>	<u>Grains</u>	<u>Ore</u>	<u>Liquids</u>
January	271,126	1,513	83,277	208,712
February	211,554	-	70,585	127,605
March	232,209	23,081	65,981	311,649
April	263,543	-	195,038	192,462
May	121,979	-	115,492	259,211
June	281,145	6,318	63,029	450,787
July	189,495	-	124,017	776,885
August	299,303	13,786	113,877	398,634
September	225,817	14,284	69,400	302,783
October	226,722	5,770	187,331	192,511
November	199,849	10,791	164,025	-
December	315,824	-	122,654	321,306
	<u>2,838,566</u>	<u>75,543</u>	<u>1,374,706</u>	<u>3,542,545</u>

Table 3

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SHIPPING ACTIVITIES

TONNAGE
(Unaudited)

2004 CARGO IMPORTS/EXPORTS
(Tons)

<u>CARGO</u>	<u>IMPORTS</u>	<u>EXPORTS</u>	<u>TOTALS</u>
GENERAL CARGO	93,548	604,483	698,031
BULK	<u>5,229,990</u>	<u>2,601,370</u>	<u>7,831,360</u>
	<u>5,323,538</u>	<u>3,205,853</u>	<u>8,529,391</u>

FIVE YEAR CARGO
IMPORT/EXPORT TONNAGE

	<u>IMPORTS</u>	<u>EXPORTS</u>	<u>TOTALS</u>
2000	5,004,025	3,327,536	8,331,561
2001	5,355,754	3,178,253	8,534,007
2002	3,712,106	3,749,590	7,461,696
2003	7,173,473	3,261,115	10,434,588
2004	5,323,538	3,205,853	8,529,391

MONTHLY CARGO TONNAGE
SHIPS AND BARGES

<u>Month</u>	<u>Tonnage</u>	<u>Ships</u>	<u>Barges</u>
January	617,780	29	45
February	475,474	22	49
March	715,301	27	40
April	689,285	23	49
May	557,946	21	37
June	816,427	23	44
July	1,142,201	31	49
August	900,174	27	75
September	651,050	24	26
October	673,276	23	59
November	454,422	19	40
December	<u>836,055</u>	<u>30</u>	<u>35</u>
Totals	<u>8,529,391</u>	<u>299</u>	<u>548</u>

Table 4

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Years
(Unaudited)

FOR YEAR ENDED JUNE 30TH

<u>Year</u>	<u>Total Tax Levy</u>	<u>Less: Cancellations and Reductions</u>	<u>Net Tax Levy</u>	<u>Less: Outstanding Delinquent Taxes</u>
1995	\$ 1,290,268	\$ 9,700	\$ 1,280,568	\$ 7,200
1996	1,372,800	17,779	1,355,021	7,455
1997	1,421,729	9,970	1,411,759	14,750
1998	1,459,998	12,386	1,447,612	36,273
1999	1,485,818	10,134	1,475,684	6,679
2000	1,628,607	31,895	1,596,712	12,068
2001	1,700,997	12,898	1,688,099	24,765
2002	1,743,819	7,136	1,736,683	22,438
2003	1,779,281	7,368	1,771,913	18,845
2004	1,820,509	13,710	1,809,103	30,825

Notes:

- (1) Delinquent tax collections are unidentifiable from prior year reports. All taxes collected are reflected in net total taxes collected column.
- (2) Calcasieu Parish Sheriff and Tax Collector collects taxes for the Port.

Table 4

<u>Net Total Taxes Collected</u>	<u>Percent of Net Levy Collected</u>	<u>Percent of Delinquent Taxes to Net Levy</u>
\$ 1,273,368	99.44%	0.56%
1,347,566	99.45%	0.55%
1,397,009	98.96%	1.04%
1,411,339	97.49%	2.51%
1,469,005	99.55%	0.45%
1,584,645	99.24%	0.76%
1,663,333	98.53%	1.47%
1,714,245	98.73%	1.27%
1,753,068	98.95%	1.05%
1,778,278	98.30%	1.70%

Table 5

LAKE CHARLES HARBOR AND TERMINAL DISTRICT
 ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 Last Ten Years
 (Unaudited)
 (In Thousands)
 FOR THE YEAR ENDED JUNE 30TH

Year	<u>Real and Mobile Home Property</u>				<u>Personal Property</u>	
	<u>Assessed Values</u>				<u>Assessed Value</u>	<u>Estimated Actual Value</u>
	<u>Total Real and Mobile Home</u>	<u>Homestead Exempt</u>	<u>Net Real and Mobile Home</u>	<u>Estimated Actual Value</u>		
1995	\$ 232,181	\$ 109,511	\$ 122,670	\$ 1,226,700	\$ 276,919	\$ 1,107,676
1996	292,827	125,207	167,620	1,676,200	290,308	1,161,232
1997	287,276	123,118	164,158	1,641,580	310,844	1,243,375
1998	300,199	128,469	171,730	1,717,300	315,902	1,263,609
1999	315,240	130,421	184,819	1,848,194	311,256	1,245,023
2000	323,771	131,950	191,821	1,918,208	328,457	1,313,827
2001	337,299	132,670	204,629	2,046,293	341,326	1,365,304
2002	345,252	134,138	211,114	2,111,140	349,243	1,396,972
2003	350,638	136,442	214,196	2,141,960	357,536	1,430,144
2004	359,913	136,969	222,944	2,229,446	376,705	1,506,820

Notes:

- (1) Louisiana state law establishes all assessment limitations.
- (2) Real property is assessed at: 10% - land, improvements and buildings
 Commercial: 10% - land; 15% - improvements and buildings
 Personal: 25%
- (3) Public utilities are assessed by Louisiana Tax Commissions annually - value and ratio.
- (4) All property assessments are made by the Calcasieu Parish Assessor.

Table 5

<u>Public Utilities</u>		<u>Total All Property</u>		Ratio of Total Assessed To Total Estimated Actual Value
<u>Assessed</u>	<u>Estimated</u>	<u>Assessed</u>	<u>Estimated</u>	
<u>Value</u>	<u>Actual</u>	<u>Value</u>	<u>Actual</u>	
\$ 40,860	\$ 272,400	\$ 440,449	\$ 2,606,776	16.90%
39,463	263,087	497,391	3,100,519	16.04%
40,118	267,451	515,119	3,152,406	16.34%
41,352	275,681	528,984	3,256,590	16.24%
42,264	281,763	538,340	3,374,980	15.95%
47,300	315,334	567,578	3,547,369	16.00%
46,725	311,498	592,680	3,723,095	15.92%
47,243	314,953	607,600	3,823,065	15.89%
48,225	321,500	619,957	3,893,604	15.92%
60,089	400,593	659,738	4,136,859	15.95%
<hr/>		<hr/>		<hr/>

Table 6

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

RATIO OF NET GENERAL BONDED DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
Last Ten Years
(Unaudited)

<u>Year</u>	<u>*Population</u>	<u>Assessed Value (in Thousands)</u>	<u>Gross Bonded Debt</u>	<u>Restricted Assets Available for Debt Service</u>
1995	174,000	\$ 607,925	\$ -	\$ -
1996	176,100	682,397	-	-
1997	180,200	702,150	-	-
1998	179,400	726,559	-	-
1999	183,400	744,911	-	-
2000	183,600	781,253	-	-
2001	184,700	827,269	-	-
2002	184,249	844,731	-	-
2003	183,577	852,161	-	-
2004	184,005	920,021	-	-
<hr/>				

Notes:

(1) The District had no long-term general obligation debt during the years 1995-2004.

(*) Reflects estimated parish wide totals

Table 6

[illegible]

Table 7

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COMPUTATION OF LEGAL DEBT MARGIN

December 31, 2004

(Unaudited)

Net assessed value		\$ 663,573,010
Plus exempt property:		
Homestead exemption (1)	\$ 136,969,260	
Business exempt property (2)	<u>119,664,550</u>	<u>256,633,810</u>
Total assessed value		<u>\$ 920,206,820</u>
Debt limit - 10 percent of total assessed value		\$ 92,020,682
Amount of debt applicable to debt limit:		
Total bonded debt	\$ -	
Less:		
Restricted assets available for payment of principal	<u>1,250,000</u>	
Total amount of debt applicable		<u>1,250,000</u>
Legal debt margin		<u>\$ 90,770,682</u>

- NOTE: (1) In the State of Louisiana, the first \$75,000 of a homeowners's primary residence is exempt from property tax. This is referred to as a "Homestead Exemption".
- (2) Under specific conditions, businesses can qualify for a ten year property tax exemption. The State grants this as an economic incentive for companies to locate or expand their business in Louisiana.
- (3) The \$25,000,000 Port Improvement Revenue Bonds, Series 1994 are not general obligation bonds secured by the imposition of ad valorem property tax approved by a vote of the electors of the District.

Table 8

LAKE CHARLES HARBOR AND TERMINAL DISTRICT
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
December 31, 2004
(Unaudited)

<u>Jurisdiction</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to District</u>	<u>Amount Applicable to District</u>
Calcasieu Parish School District (all)	\$ 7,615,000	56%	\$ 4,264,400
Calcasieu Parish School District No. 31	35,295,512	100%	35,295,512
Calcasieu Parish School District No. 23	25,278,458	80%	20,222,767
Calcasieu Parish School District No. 22	14,940,000	100%	14,940,000
Calcasieu Parish School District No. 30	35,820,000	10%	3,582,000
Calcasieu Parish School District No. 28	1,250,000	10%	125,000
Calcasieu Parish School District No. 21	1,065,000	1%	10,650
City of Westlake	<u>8,805,699</u>	100%	<u>8,805,699</u>
	<u>\$ 130,069,669</u>		<u>\$ 87,246,028</u>

NOTE: Provided by Calcasieu Parish School Board, City of Lake Charles, and City of Westlake.

Table 9

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

COVERAGE PROVIDED BY NET REVENUES FOR
ANNUAL DEBT SERVICE REQUIREMENTSLast Ten Years
(Unaudited)

<u>Year</u>	<u>Gross Revenue</u>	<u>Operating Expenses</u>	<u>Net Revenue Available for Debt Service</u>
1995	\$ 20,853,323	\$ 14,170,937	\$ 6,682,386
1996	21,209,947	16,180,487	5,029,460
1997	22,028,369	17,546,951	4,481,418
1998	23,669,281	18,236,102	5,433,179
1999	18,755,648	19,703,137	(947,489)
2000	23,680,439	20,109,106	3,571,333
2001	21,136,879	21,009,957	126,922
2002	18,786,217	22,289,309	(3,503,092)
2003	20,562,728	22,147,807	(1,585,079)
2004	25,726,926	22,388,668	3,338,258
	<u> </u>	<u> </u>	<u> </u>

Note:

- (1) Gross revenues include operating and nonoperating revenues of the District.
- (2) Operating expenses include costs directly associated with the District's primary activities.
- (3) Only general obligation debt is included in this table.

Table 10

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

DEMOGRAPHIC STATISTICS

Last Ten Years

(Unaudited)

<u>Year</u>	<u>(1) Population</u>	<u>(1) Per Capita Income</u>	<u>(1) Median Age</u>	<u>Education Level In Years of Formal Schooling</u>	<u>(2) School Enrollment</u>	<u>Unemployment Rate Percent</u>
1995	174,000	\$ 17,929	32.2	*	33,905	5.4
1996	176,100	19,109	32.5	*	33,503	6.6
1997	180,200	19,906	35.0	*	33,453	5.6
1998	179,400	20,901	32.0	*	33,534	5.1
1999	183,400	21,840	33.8	*	32,881	4.0
2000	184,300	22,139	33.5	*	32,099	5.1
2001	184,700	22,792	34.3	*	31,963	5.7
2002	184,249	24,454	34.5	*	32,240	5.8
2003	183,577	19,226	34.0	*	33,251	5.7
2004	184,005	20,490	35.2	*	32,622	6.2

Notes:

(1) Census information was obtained from the local Chamber of Commerce

(2) Calcasieu Parish School Board

Table 11

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

PRINCIPAL TAXPAYERS IN DISTRICT

December 31, 2004

(Unaudited)

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2003 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
ConocoPhillips Company	Refinery	\$ 39,041,410	4.52%
PPG Industries, Inc.	Chemical plant	35,200,850	4.07%
Sasol North America, Inc.	Chemical plant	19,021,760	2.20%
CITGO Petroleum Corporation	Refinery	15,842,410	1.83%
Lyondell Chemical Company	Chemical plant	13,109,030	1.52%
Bellsouth Telecommunication	Telephone company	12,564,200	1.45%
Basell USA, Inc.	Chemical plant	11,456,720	1.33%
Westlake Petrochemicals, Inc.	Chemical plant	11,063,930	1.28%
Louisiana Pigment Company, LP	Chemical plant	9,548,740	1.10%
Entergy Gulf States, Inc.	Electricity	9,418,790	1.09%
		<u>\$ 176,267,840</u>	<u>20.39%</u>

Table 12

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

MISCELLANEOUS STATISTICS

December 31, 2004

(Unaudited)

DATE OF INCORPORATION:

1926

NUMBER OF EMPLOYEES:

104

FORM OF GOVERNMENT:

Political Subdivision of State
of Louisiana

AERIAL CLEARANCE:

Highlines	170 feet
I-210 Bridge	135 feet

GEOGRAPHICAL LOCATION:

Latitude 30 13' North
Longitude 90 15' West
32 miles inland from Gulf
of Mexico

ELEVATION:

Sea level to 20 feet

TEMPERATURE:

77.6 maximum average
63.7 minimum average
71.2 mean
Average yearly rainfall
53.03 inches

TIDAL INFORMATION:

Mean tide level	1.0 feet
Diorhan range	2.0 feet
Neap tides	MLWN 0.3 feet
	MHWN 1.0 feet
Spring tides	MLWN 0.0 feet
	MHWS 1.8 feet

GENERAL CARGO FACILITIES:

1,060,960 sq. feet of transit sheds
606,300 sq. feet of warehouse
(available for lease)

PRINCIPAL CARGO:

Flour	Petroleum coke
Rice	Barite
Lumber	Rubber
Other grains	Limestone
Rutile	

PUBLIC DOCKS:

Dry cargo	11 - City docks
Bulk materials	2 - Bulk Terminal No. 1 - Rosebluff
Bulk materials	1 - Bulk Terminal No. 4 - Westlake
Open berth	2 - City docks
Grain elevators	1 - City docks
General cargo	<u>1</u> - Industrial Canal

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**LAKE CHARLES HARBOR AND TERMINAL DISTRICT
LAKE CHARLES, LOUISIANA**

REPORT ON

**COMPLIANCE AND INTERNAL CONTROL OVER
FINANCIAL REPORTING**

YEAR ENDED DECEMBER 31, 2004

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

LAKE CHARLES, LOUISIANA

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CFE - Certified Fraud Examiner
MT - Masters of Taxation
CVA - Certified Valuation Analyst
CFP - Certified Financial Planner

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Lake Charles Harbor and Terminal District
Lake Charles, Louisiana

We have audited the financial statements of the Lake Charles Harbor and Terminal District (the District), Lake Charles, Louisiana as of and for the year ended December 31, 2004, and have issued our report thereon dated March 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lake Charles Harbor and Terminal District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lake Charles Harbor and Terminal District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, Board of Commissioners, federal awarding agencies, and other state and federal audit agencies and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Mr. Elroy, Quirk & Burch

Lake Charles, Louisiana

March 16, 2005

McELROY, QUIRK & BURCH

(In Affiliation with - Gus Schram & Co., LTD)

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MT - Masters of Taxation
CVA - Certified Valuation Analyst
CFP - Certified Financial Planner

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Lake Charles Harbor and Terminal District
Lake Charles, Louisiana

Compliance

We have audited the compliance of the Lake Charles Harbor and Terminal District (the District), Lake Charles, Louisiana with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2004. The Lake Charles Harbor and Terminal District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Lake Charles Harbor and Terminal District's management. Our responsibility is to express an opinion on the Lake Charles Harbor and Terminal District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Lake

Charles Harbor and Terminal District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Lake Charles Harbor and Terminal District's compliance with those requirements.

In our opinion, the Lake Charles Harbor and Terminal District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the Lake Charles Harbor and Terminal District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Lake Charles Harbor and Terminal District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Lake Charles Harbor and Terminal District as of and for the year ended December 31, 2004, and have issued our report thereon dated March 16, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures, applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, Board of Commissioners, Legislative Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

M^{rs} Elroy, Quirk & Bunch

Lake Charles, Louisiana

March 16, 2005

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2004

	<u>CFDA Number</u>	<u>Grant Award</u>	<u>Grant Revenues</u>	<u>Grant Expenditures</u>
Department of Justice: Urban Area Security Initiative	16.011	\$ 4,245,445	\$ 2,282,572	\$ 2,287,153

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2004

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified
Internal control over financial reporting:
Material weakness identified? ☐ Yes ☒ No
Reportable condition identified not considered
to be material weakness? ☐ Yes ☒ None reported
Noncompliance material to financial statements
noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:
Material weakness identified? ☐ Yes ☒ No
Reportable condition identified not considered
to be material weakness? ☐ Yes ☒ None reported
Type of auditor's report issued on compliance
for major programs: Unqualified
Any audit findings disclosed that are required
to be reported in accordance with Circular
A-133, Section .510(a)? ☐ Yes ☒ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
16.011	Urban Area Security Initiative

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 300,000
Auditee qualified as low-risk auditee? ☐ Yes ☒ No

(continued on next page)

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2004

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2004

<u>Finding</u>	<u>Description</u>	<u>Page</u>
2003-01	Monitoring of Capital Projects	11
2003-02	Longshoremen Services	12
2003-03	Letter of Credit and Reimbursement Agreement Covenants	13
XXXXXXX	Other Information and Recommendations For management's information and consideration	14-16

LAKE CHARLES HARBOR AND TERMINAL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2004

Finding 2003-01

Monitoring of Capital Projects

Condition:

Management of the District inadequately monitored the status of capital projects. As a result the District did not close out and capitalize a major construction project that was put into service during 2003.

Recommendation:

The District's Engineering Department should communicate the status of all capital projects in progress to accounting on a regular basis. Communication between these Departments should include information about projects that have been completed as well as projects that have been abandoned so that appropriate adjustments may be entered into the financial records. The District should consider developing a standardized method of communicating project status to the Accounting Department.

Current Status:

The District's management has implemented the above recommendation and no such finding exists for 2004.

APPENDIX B

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2004

Finding 2003-02

Longshoremen Services

Condition:

The District's management inadequately monitored certain payments to the Lake Charles Stevedores, Inc. (LCS) for the use of longshoremen services performed for the District.

During 2003, subsequent to the installation of the new Board of Commissioners and employment of new Port management, the District determined that it had been billed and had paid a higher rate for services of one LCS clerk than is prescribed by the ILA rate sheet. The services of the clerk, a former District commissioner, were over-billed to the District in excess of \$27,000 during 2002 and the first seven months of 2003. This matter has been brought to the attention of the Louisiana Board of Ethics and other authorities for appropriate resolution.

Also during 2003, it appeared that invoices from LCS on one of the District's agreements were not adequately reviewed. We noted that on multiple occasions an individual was billed to the District for two separate functions for the same hours worked. After inquiries of District's management, it appears the District may have been over-billed for stevedoring services.

Recommendation:

The District should review all charges by LCS to determine reasonableness and compliance with contractual agreements. The District should also seek remuneration for all identified over-billings.

Current status:

The District's management has implemented the above recommendation and no such finding exists for 2004.

APPENDIX B

LAKE CHARLES HARBOR AND TERMINAL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2004

Finding 2003-03

Letter of Credit and Reimbursement Agreement Covenants

Condition:

The District failed to fully comply with the Letter of Credit and Reimbursement Agreement (LOC) that was in effect prior to August 27, 2003. Details about the matters of noncompliance are presented in Finding 2002-02 of the Report on Compliance and on Internal Controls issued to the District for the year ended December 31, 2002. That report was dated April 28, 2003. Many of the instances described in that report occurred during the first six months of 2003. In August, 2003, the District replaced Dexia Credit Local with Hibernia National Bank as the Letter of Credit provider.

Recommendation:

Because the District has replaced Dexia Credit Local with Hibernia National Bank (Hibernia) as the Letter of Credit provider and a replacement Letter of Credit Agreement has been contracted with Hibernia, we make no further recommendations about compliance with the Dexia LOC. The District has implemented procedures to monitor compliance with the covenants contained in the Hibernia LOC and comments and recommendations related to those controls are included in the Other Information and Recommendations section of this report at Item Number 1, Letter of Credit with Hibernia National Bank.

Current Status:

No such finding in 2004.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2004

Item Number 1. Letter of Credit with Hibernia National Bank

Monitoring Compliance with Debt Covenants

The District's Letter of Credit Agreement (LOC) executed on August 27, 2003 with Hibernia National Bank (Bank) contains several debt covenants. The District has prepared a checklist to assist with monitoring compliance with these debt covenants. However, it appears that procedures for monitoring compliance with certain provisions of the LOC have not been fully developed. The LOC restricts withdrawals in excess of defined limits from the Revenue Fund without approval from the Bank. These limits should be monitored on an ongoing basis to ensure compliance with this covenant. Failure to monitor all debt covenants could result in an event of noncompliance.

Recommendation:

We recommend the checklist be reviewed to identify covenants that may require additional steps or calculations. The District should develop additional monitoring tools such as a report or reports that present applicable financial information that would enable management to determine that certain financial covenants have been met.

Current Status:

The District's management has implemented the above recommendation and no such finding exists for 2004.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2004

Item Number 2. Contracts

Controls Over Contracts

During 2003, the District conducted reviews of its current contracts and compiled a list of contracts. As a result of those reviews, certain contracts are in the process of being renegotiated. However, as of the date of this report, the District had not assigned responsibility for continuing oversight of each contract to designated individuals within the organization. A key element to contract monitoring, is a system of accountability by which individuals are assigned primary responsibility for a contract. A lack of designated responsibility may result in a failure to enforce or comply with a provision of a contract.

Recommendation:

We recommend that management assign responsibility to designated individuals for monitoring individual contracts to provide assurance that all contract provisions and deadlines are met.

Current Status:

The District's management has implemented the above recommendation and no such finding exists for 2004.

LAKE CHARLES HARBOR AND TERMINAL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2004

Item Number 3. Investment Activities

Controls Over Investment Activities

Management of the District has not implemented formal procedures for review and approval of decisions and transactions involving the District's investment portfolio. Effective internal control over investing activities requires proper segregation of responsibilities related to control over the investment portfolio and transactions related thereto. Without sufficient review and oversight, noncompliance with management's intentions may occur and not be detected within a timely period.

Recommendation

Management should designate an appropriate individual or group of individuals to regularly review the District's investment portfolio and transactions related thereto. Those responsible should review the investment decisions and transactions for propriety as well as the portfolio to monitor its compliance with state laws and the District's investment policy.

Current Status:

The District's management has implemented the above recommendation and no such finding exists for 2004.